

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20 SCEM-02 SS-20

NSC-10 L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01 DOTE-00

IO-14 INT-08 DRC-01 /198 W

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R 261725Z NOV 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 1577

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E.O. 11652: N/A

TAGS: EFIN EAID BL

SUBJ: IBRD PROGRAMS AND PROBLEMS IN BOLIVIA

SUMMARY: VAN DER HEIDEN, CHIEF VENEZUELA, BOLIVIA ARGENTINA
DIVISION OF IBRD, CALLED ON AMBASSADOR NOVEMBER 20 TO DISCUSS HIS
TWO DAY VISIT TO LA PAZ. COVERED MOST OF IBRD PROBLEMS AND PLANS IN
BOLIVIA. OF PERHAPS GREATEST INTEREST ARE HIS COMMENTS ON
YPFB NEGOTIATIONS WITH GULF OIL TO REVISE INDEMNIZATION SCHEDULE
AND ON IMPC PROBLEM. END SUMMARY.

1. VAN DER HEIDEN BEGAN BY SAYING EXPECTED BE IN POSITION TO GO
TO IBRD BOARD IN JANUARY 1974 WITH US\$ 6 MILLION LOAN PROPOSAL FOR
MINING SECTOR. SOMEWHAT LESS THAN US\$ 5 MILLION WOULD BE CHANNELED
THROUGH BANCO INDUSTRIAL S.A. TO ABOUT TWENTY-FIVE MEDIUM AND
SMALL PRIVATE MINE COMPANIES. ABOUT US\$ 1 MILLION WOULD FINANCE AN
INVENTORY OF SMALL MINES WHICH MIGHT BECOME BASIS FOR FURTHER
IBRD LOAN. ABOUT US\$ 150,000 WOULD BE USED FOR STUDIES OF (A)
REORGANIZATION OF MINMINES, (B) EXPLORATION FUND, AND (C)
MINING SECTOR TAX STRUCTURE.

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2. VAN DER HEIDEN SAID HE IS WORRIED ABOUT BOLIVIAN GENERAL

ECONOMIC PERFORMANCE AND THAT THERE WAS DISSATISFACTION ABOUT IT IN IBRD. NOTED THAT SEVERAL YEARS AGO TERMS OF TRADE TURNED AGAINST BOLIVIA BY US\$30 MILLION TO US\$40 MILLION. HE SPECULATED THAT IMPORT RESTRAINT HAD REACHED POLITICAL LIMIT AND THAT DEVALUATION HAD BEEN MISTAKE, CITING PRICE, WAGE AND TAX DISLOCATIONS. ECONOFF RESPONDED THAT, WHEN IN JULY PRINCIPAL EMBOFFS HAD MET WITH AMBASSADOR TO CONSIDER WHETHER MORE EFFECTIVE IMPLEMENTATION STABILIZATION PROGRAM IMPOSSIBLE DUE POLITICAL CONSTRAINTS, CONSENSUS WAS THAT GOB COULD HAVE AVOIDED MAKING SUCH EXTENSIVE CONCESSIONS WITHOUT MUCH POLITICAL RISK AND THAT CONCESSIONS HAD BEEN DUE TO GOB'S EXTENSIVE FAMILY AND FRIEND LINKAGE TO BUSINESS. SAID IMPLEMENTATION EFFECTIVE PROGRAM HAD ALSO BEEN WEAK BECAUSE GOB HAD HOPED OBTAIN PROGRAM LOAN OR CREDITS, PARTICULARLY INFAMOUS US\$225 MILLION LOAN.

3. VAN DER HEIDEN SAID BOLIVIAN POWER COMPANY (BPC) PROBLEM COMPLICATED BY FRICTION GENERATED BY PERSONALITIES OF MANAGER BPC, MITCHELL, AND MINISTER ENERGY CAPRILES. SAID HE WOULD TAKE UP THIS PROBLEM WITH BPC HEADQUARTERS IN NEW YORK. SAID MINISTRY PLANNED ALLOW 60 PERCENT TO 70 PERCENT RATE INCREASE WHEN BPC GIVEN "NATIONAL CHARACTER" WHICH WOULD BE ABOUT END OF AUGUST, 1974. MEANWHILE AUTHORITIES WERE WORRIED BY BPC POLICY AGAINST IMPORT OF ANY ADDITIONAL EQUIPMENT NEEDED TO MAINTAIN AND EXPAND EXISTING PLANT AND NET. NOTED THAT PRUDENCIO CLAROS AUDIT FIRM HAD BEEN HIRED BY CORDEPAZ TO ESTABLISH VALUE OF PLANT AND NET.

4. VAN DER HEIDEN SAID IDB AND IBRD HAS SUSPENDED DISBURSEMENTS OF THEIR LOANS TO BANCO AGRICOLA UNTIL IT IS RESTRUCTURED. SAID BANCO AGRICOLA HAD BECOME VERY POLITICIZED UNDER FSB AND IN CONFLICT WITH CENTRAL BANK WHICH UNDER MNR CONTROL. DISBURSEMENT OF REMAINING US\$ 2 MILLION UNDER US\$ 6.8 MILLION IBRD THIRD LIVESTOCK LOAN HAD BEEN HELD UP SINCE MARCH, 1973. VAN DER HEIDEN SAID HE TRYING SET UP ARRANGEMENT WHEREBY OUTSTANDING PRINCIPAL AND POSSIBLY 9 PERCENT INTEREST RATE ON SUBLOANS WOULD BE "INDEXED" TO COST OF LIVING INDEX OR BEEF PRICES OR BOTH. AUTHORITIES HAD INFORMED HIM DECREE WOULD BE NEEDED. IF PROBLEM RESOLVED SOON HE ESTIMATED LOAN WOULD BE EXHAUSTED BY APRIL, 1974.

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5. SAID RECENT IBRD MISSION TO BOLIVIA DID IDENTIFY RURAL DEVELOPMENT PROJECTS SUITABLE FOR IBRD CREDIT NEAR COCHABAMBA AND VIACHA. CREDIT FOR SMALL FARMERS WOULD BE IMPORTANT ELEMENT IN THESE PROJECTS; ABOUT \$B 100 MILLION NEEDED CAPITALIZE THEM.

6. VAN DER HEIDEN SAID THAT DESPITE 67 PERCENT RAILWAY RATE INCREASE AT TIME OF DEVALUATION FERROCARRILES WILL NOT MEET FINANCIAL TARGETS SET FOR END CY 1973 UNDER IBRD LOAN AND WILL

THEREFORE BE IN DEFAULT. SAID FERROCARRILES NEEDS FURTHER 30 PERCENT TO 35 PERCENT RATE INCREASE TO MEET TARGETS. IN RESPONSE TO QUESTIONS, SAID HE UNDERSTOOD BRAZILIANS DOING FEASIBILITY STUDY ON INTERCONNECTION EASTERN AND WESTERN RAILWAY SYSTEMS AND BOLIVIANS PAYING FOR FEASIBILITY STUDY ON EXTENSION RAILWAY FROM SANTA CRUZ TO TRINIDAD WHICH ARGENTINA HAS OFFERED TO FINANCE AND BUILD. (GOB INCREASED RAILWAY RATES BY 28.3 PERCENT ON NOVEMBER 23).

7. VAN DER HEIDEN SAID HE WAS ALSO LOOKING INTO POSSIBILITY CHANGES IN CONTRACT ON GAS PIPELINE. HAVING JUST ARRIVED IN LA PAZ FROM VISIT TO BUENOS AIRES GAVE HIS IMPRESSION OF GOB/GOA PRESIDENTIAL TALKS THERE AS CASE OF GOA REQUESTING AN ACCELERATION OF GAS DELIVERIES THAT GOB BELIEVED WOULD LEAVE BOLIVIA WITHOUT GAS WITHIN FEW YEARS. SAID ALTHOUGH GOA HAD NOT EXPLICITLY SAID THEY WISHED PRECLUDE POSSIBILITY BOLIVIAN GAS SHIPMENTS TO BRAZIL THEIR REQUESTS WOULD HAVE THAT EFFECT. SAID PRELIMINARY INQUIRIES HAD BEEN MADE OF GULF OIL ON POSSIBILITY ALTERING REPAYMENT SCHEDULE. ACCORDING VAN DER HEIDEN AT PRESENT PETROLEUM PRICES ON PRESENT SCHEDULE GULF INDEMNIZATION WOULD BE PAID OUT BY 1978 INSTEAD OF 1991 AS CONTEMPLATED ON BASIS PRICES PREVAILING AT TPME AGREEMENT SIGNED. SAID YPFB HAD NO THOUGHT OF UNILATERALLY ALTERING DELIVERY SCHEDULE AND WOULD RENEGOTIATE IN MATURE WAY. NOTED THAT OIL COMPANIES THAT HAVE RECENTLY SIGNED CONTRACTS WITH YPFB ARE CONSTANTLY ASKING WHETHER GULF BEING PAID ON SCHEDULE INDICATING IMPORTANCE THEY PLACE ON YPFB COMPLIANCE WITH GULF AGREEMENT FOR THEIR OWN FUTURES IN BOLIVIA.

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ACTION ARA-20

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8. AFTER USAID DIRECTOR REVIEWED USAID THINKING ON FUTURE LOANS, VAN DER HEIDEN SAID THAT A COMPREHENSIVE TRANSPORTATION STUDY DATING FROM 1966/67 IS BEING WORKED OVER BY A TRANSPORTATION STUDY UNIT IN MINISTRY TRANSPORTATION AND COMMUNICATIONS. UNIT IS STAFFED WITH UNDP PEOPLE WHO ARE PLUGGING HOLES IN ORIGINAL STUDY AND UPDATING PARTS OF IT. (STUDY COVERS AVIATION AS WELL AS RAILWAY HIGH AND RIVER TRANSPORT).

9. IN RESPONSE TO QUESTIONS ON IBRD VIEW OF IMPC SITUATION, VAN DER HEIDEN SAID FRANK TYE HAD BEEN UNABLE COME UP WITH (A) ABOUT US\$ 1 MILLION NEEDED TO COMPLEMENT IBRD OR OTHER FINANCING, AND (B) BANK GUARANTEES. SAID THAT TYE HAD CREATED BAD IMPRESSION WHEN MINMINES TOLD TYE TO DISCUSS PROBLEMS WITH COMIBOL MANAGER IN SEPTEMBER, 1972 AND TYE HAD REFUSED SAYING PRESIDENT BANZER WAS HIS PARTNER. ADDED THAT HE BELIEVED EMBOSA NOW DISSOLVED AND PROBLEM NO LONGER EXISTED AS IBRD LAWYERS BELIEVE THERE IS NO COMPENSATION PROBLEM. VAN DER HEIDEN CONTINUED, HOWEVER, SAYING HE ASSUMED IMPC WOULD RECEIVE 45 PERCENT OF ANY EMBOSA ASSETS.
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